

ECONOMY AND EFFICIENCY COMMISSION

ROOM 163, HALL OF ADMINISTRATION / 500 WEST TEMPLE / LOS ANGELES, CALIFORNIA 90012 / 974-1491

October, 1978

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CONTRACTING WITH PRIVATE FIRMS*Contracts, Letting of -- CA -- LACo.
Public contracts -- CA -- LACo.*
SUMMARY

The Economy and Efficiency Commission recommends a YES vote on Proposition A on the November ballot. This measure will permit the County to contract for services with private firms when contracting would be more economical and efficient than using County employees. The measure requires the County to establish criteria for entering into contracts and to use competitive bidding procedures in selecting contractors.

The courts have held that the County Charter prohibits contracting unless the work to be performed is of a temporary or highly specialized nature, or requires expertise not obtainable from County employees or from people who could be recruited under civil service. Criteria such as the economy, efficiency, and effectiveness of the service may not be considered.

Proposition A will improve accountability, curtail the growth of government bureaucracy, and increase the cost-effectiveness and responsiveness of County government. It will not, as its opponents claim, result in spoils, patronage, graft and corruption. Even with the present limitations on contracting, the County contracts for several services, including architectural services,

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treatment of drug or alcohol abuse, overloads in key-punching, ambulance transportation, and maintenance of remote facilities. The opponents have presented no evidence whatsoever of graft or corruption in any of these areas.

At present, County agencies employing full-time civil service personnel, operate as a virtual monopoly in the production and delivery of public services. As with all monopolies, an important incentive to control costs is absent - the incentive of competition. By freeing the County to contract for service with outsiders, Proposition A will introduce the potential for competition into the system. County managers, unions and employees will have an incentive to increase productivity in order to lower the costs of delivering County services to levels below those offered by contractors competing to supply the same service. The public will benefit because their elected representatives will have a choice between the two methods of delivering services, a choice not available now because of the strict charter requirements protecting civil service employment.

One of the messages of Proposition 13 was to reduce the cost of government. Our commission has repeatedly stressed that archaic and obsolete practices and systems are a major source of excessive government costs. Until the public understands that reducing government costs requires a thorough revision of the systems used to provide services, we will have no meaningful reform. Proposition A will break the civil service monopoly, thereby enabling the County to achieve substantial cost reductions.

We urge the voters to approve Proposition A on November 7.

ANALYSIS

1. The option to contract will improve the accountability of County government.

Under Proposition A the Board of Supervisors would be free to choose among alternative producers of the service - County agencies and independent contractors. The Board would thus be forced to make decisions based on a determination of the precise objectives of a service, requirements for its performance, and the cost effectiveness of alternative methods of producing it.

The improvement of accountability we predict will result from the penalties for non-performance once the Board has made its decision. The two methods of service will be continuously tested against each other, and the Board will have the option at all times to switch from one method to the other.

Without this kind of flexibility, the Board cannot fairly be held accountable. While it can compare private sector costs to County costs, these comparisons have little meaning because the County cannot choose the private sector.

2. Contracting with the private sector or with community organizations often improves the cost effectiveness of providing a government service.

Research on a national scale has shown that contracting for a government service can be less costly than in-house provision. In a 1975 study of 2,060 communities, financed by the National Science Foundation, E. S. Savas and others at Columbia University, showed that refuse collection is least costly when the municipality contracts for it. In-house municipal collection, franchise collection, and wholly private collection were more costly. After

adjusting for different levels of service, the study found that in-house collection by government agencies remained more expensive than contracting. In the report, Savas states:

"The significantly lower cost of contract collection compared to municipal collection firmly discredits the popular but simplistic assertion that 'government can do it cheaper because it doesn't make a profit . . . ' Private firms under contract are less expensive than municipal agencies in providing this public service."

In several cases the County's experience verifies this conclusion. For example, the County contracts for key-punching in peak load periods. The in-house County cost for keypunch was recently quoted at \$9.32 per hour, compared to a contract cost of \$8.75 per hour. In 1975, a review by the Chief Administrative Officer, showed that County costs ranged from \$30 to \$290 more per thousand keypunch documents than contract costs. In every case, contracting was less costly than hiring temporary personnel to meet peak load demands.

As another example, in 1977 the Department of Health Services found that County operated out-patient alcoholism treatment cost \$62 per hour for individuals and \$14.50 per hour per person for group treatment. Comparable contract program costs were \$22 for individuals and \$6.70 for groups.

The availability of the contracting alternative does not mean that the private sector will always be chosen. The key point is that the County should have the legal right to make the choice based upon an objective evaluation of cost-effectiveness. The County's experience with the King Tut exhibit illustrates this point. In this case the County Museum of Art used both County departments and private contractors. It used the Communications Department together with a private contractor to design, develop, and construct the communications center. It used the Mechanical Department to design and operate the parking lots and to install the air conditioning system, but did not use that

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department's security guards. The Museum supplemented its regular security force by hiring exhibition attendants without using normal civil service procedures. It also hired its own office staff and Tut Shop personnel. Museum officials have told us that if they had been forced to use standard civil service procedures, the costs would have doubled and the Museum would have had great difficulty in meeting exhibition schedules and performance requirements.

Contracting with community organizations, as distinguished from profit-making firms, can also improve the cost-effectiveness of County services. Such organizations often provide a service which is needed in a small area with well defined socio-economic and cultural differences from the remainder of the County. Thus, in the communities they serve they are potentially more cost-effective than the County because they typically do not pay County wage and benefit scales, they utilize substantial amounts of volunteer labor and other community resources, and they are not viewed by users as representatives of a large and distant bureaucracy.

Whatever the case - whether the County chooses a profit-making firm, a non-profit community organization, or its own department - the public interest is best served when the County has the freedom to make a rational choice among available alternatives.

3. The Charter amendment requires the County to adopt an ordinance specifying criteria for entering into contracts and competitive bidding procedures for awarding them.

The charter amendment cannot go into effect without the implementing ordinance. The ordinance is of critical importance. As a public document, it or any change in it will be examined carefully by the press, by taxpayer organizations, and other community groups. We are confident that it will contain

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the safeguards necessary to protect the public interest and to avoid misuse of the contracting alternative.

We recognize that County experience with contracting has not always been positive. For example, the County Department of Parks and Recreation has been contracting for landscape maintenance at two sites since 1976. The department recently invoked contractual non-performance sanctions against one of the contractors. The problem was that the 1977 price bid by the selected contractor was too low to permit performance according to specifications. In this case the Board of Supervisors and the department, with the concurrence of the concerned homeowners, chose to contract for the service at a 48% savings over County cost, despite their doubts that the work could actually be performed as required at that price. Thus the decision to save money resulted in a serious deterioration of performance.

The case illustrates the need for an implementing ordinance that will require a careful evaluation of the cost-effectiveness of all alternatives before a decision is made to contract. The ordinance should also contain provisions for the supervision of contracts, for post contract audits, and for full budgetary disclosure. These safeguards will insure that the County receives the services it pays for and that its experience can be used to improve future decision-making.

It is also important to understand that Proposition A will not permit the Board to contract out any service that involves the sovereign power of the State or is explicitly assigned by law to a County official. This will prevent the Board from considering contracting for police protection, elections, recording of documents, equalization of property assessments, and inspection of buildings. To insure that County contracting remains within these legal bound-

The following summary represents the present status of the project.

The following items are:

1. The project is being carried out in accordance with the plan.

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aries, the ordinance will contain a provision requiring the County Counsel to review wherever necessary each service proposed for contracting.

The real issue in Proposition A is not political corruption or spoils, but rather the productivity of County services. Because of the charter requirements protecting civil service employment, the County cannot consider economy, efficiency and effectiveness in determining whether or not to contract. Passage of Proposition A will eliminate this costly restriction.

REFERENCE

E. S. Savas, "Policy Analysis for Local Government: Public vs. Private Refuse Collection," in Policy Analysis, University of California Press, Winter 1977.

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